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SUBJECT: DAILY SUMMARY OF JAPANESE PRESS 01/07/09

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ARTICLES:

(1) Government to scrap capital gains tax for foreigners holding stakes in Japan firms via investment funds

NIKKEI (Top Play) (Almost Full)
January 7, 2009

The government has finalized a revision to taxation on foreigners who hold stakes in Japanese companies through investment funds, the aim being to promote investment in Japan. The feature of the package is to exclude, in principle, capital gains from taxation. The measure will also apply to investment through existing foreign investment funds, on condition that relevant investors account for less than 25 PERCENT of a fund. The government aims to halt the slump in investment in Japan, following the slowing down of the global economy.

Funds need to have held stakes in Japanese firms for at least a year

Many overseas investors buy into Japanese firms via funds. However, Japan currently levies a corporate tax of about 40 PERCENT on capital gains when funds sell shares -- one of the highest rates in the world.

Foreign investors account for only 4 PERCENT of fund investment in Japan, which is far below the 75 PERCENT in Britain, the 60 PERCENT in the EU and the 20 PERCENT in the U.S. The ruling parties' tax code revision outline for fiscal 2009, compiled late last year with this situation taken into consideration, mentions that investment through investment funds should be excluded from being subject to

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taxation, such as income and corporate taxes. The government has been working out the details. It plans to submit bills related to tax code revisions to the current Diet session, seeking to end related corporate and income taxes from April.

The fund eligible for tax exemption is investment limited liability partnerships -- the most popular fund that is said to make up roughly 80 PERCENT of funds in Japan and abroad. The advantage is that since investors are not held responsible for more than the amount they have invested, their risks will not expand. The benefit will also apply to existing foreign and domestic funds as well as to funds established after the revision of the law. However, in order to ensure stable investment, the funds need to have held stakes in Japanese firms for at least a year in order to be given this tax exemption.

Conditions for foreign investors to become eligible for the capital gain tax exemption include: (1) their stake in these partnership funds should be below 25 PERCENT ; (2) their stake in management companies for these funds should be below 50 PERCENT ; (3) they should not have businesses in Japan; and (4) neither they nor a family member manages the funds. These restrictions are intended to limit the exemption to investors seeking return and not acquisitions. According to the Ministry of Economy, Trade and Industry, partnership funds targeting Japanese companies number more than 200 but the money they manage totals only 2 trillion yen.

An increase in investment by foreigners will bring about a strong yen over the near term. However, over the mid- to long-term, it could help revitalize the Japanese economy, by boosting investment by Japanese companies and creating jobs.

In order to lure investment into Japan, a system to exempt taxation on capital gains applicable to overseas investors who have fund operators in Japan was established in April last year. However, this system was not used actively, because many investors were dissatisfied with it with one complaining, "It is far too costly" or another saying, "It is inconvenient, because we must prove the independence of our agents."

(2) Pro- and anti-Aso groups shaking the LDP; Meeting after meeting held by mid-level and junior members, with Lower House election scheduled to take place by fall; Sense of crisis from plummeting support ratings

A group was launched yesterday in the Liberal Democratic Party that is composed of members critical of Prime Minister Taro Aso's plan to hike the consumption tax. Group after group has been launched in the LDP mostly by mid-level and junior members who are keeping themselves at arms' length with the prime minister. Looming in the background is a sense of alarm at the Aso cabinet's sagging support ratings. At the same time, the party is highly alarmed at any developments that can be taken as an anti-Aso movement. A parliamentary league supporting the prime minister was also launched yesterday mainly by mid-level lawmakers.

With the next Lower House election scheduled to take place by the fall this year, disturbing developments are likely to continue unfolding for some time.

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"The envisioned consumption tax hike must not be incorporated into our manifesto (campaign pledges) for the next Lower House election."

Seven mid-level and junior LDP lawmakers, including Ichita Yamamoto, set up a study group yesterday opposing the prime minister's plan to raise the sales tax in fiscal 2011 or later. The group plans to call for thorough administrative and fiscal reforms, including a reduction in the number of Diet seats.

Besides this study group, the LDP has many others, including one that includes Yasuhisa Shiozaki and those other lawmakers who pressed the prime minister for an early presentation of a second supplementary budget for fiscal 2008. There is another parliamentary group urging the prime minister to completely free up road-related revenues for general spending. Factions are visibly less eager to tighten control over their members acting against the party leadership. A growing number of LDP lawmakers are turning their backs on Prime Minister Aso who took office just three months ago.

A senior LDP member criticized such developments as grandstanding for the sake of the next election. Junior members with weak political bases fear that without strong public support, they might lose their seats. They are also sensitive to public criticism of tax increases and pork-barrel spending.

Although the party leadership appears calm on the surface, it is paying much attention to criticism of a cash handout program and of moving road tax revenues into the general account. That is because if a large number of LDP members vote against the second extra budget, the fiscal 2009 budget and related bills, the administration could not survive.

A parliamentary group called the Group to Powerfully Revitalize Japan was set up yesterday. After the group's inaugural meeting, the group's chair Hiroshi Imazu told reporters: "We don't want to generate a public image that the party's unity has declined. We, mid-level members, will band together firmly and support the prime minister." Last night, there was a meeting of Diet members, including Election Strategy Council Chairman Makoto Koga, who are from Kyushu, from which Prime Minister Aso also comes. There seems to be some kind of relationship between those pro-Aso meetings and the party leadership's sense of crisis.

Included in what appear to be anti-Aso groups are many individuals who are close to Yoshimi Watanabe, who plans to leave the LDP. But at this time, only a handful of people think those developments will directly result in a campaign to topple the Aso cabinet and political realignment.

Some members avoided attending the meeting of Yamamoto and others so as not to be regarded as anti-Aso. Yamamoto emphatically said: "We are not against the administration. I don't think we will have a negative impact on the party."

There is this analysis: Even if one remains anti-Aso, that might just result in sporadic guerrilla warfare. Given a positive projection for the next Lower House election, the DPJ remains firmly united. This can explain why some LDP members are slow to take action, though they are discontent with the current situation.

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Koichi Kato, who aims at uniting liberal forces, has been abstaining from acting against the administration. Former Secretary General Hidenao Nakagawa, who is oriented toward political realignment, too, has shifted weight to intra-party activities.

The group named New Breeze led by former Secretary General Tsutomu Takebe also met yesterday. The group has many members critical of the prime minister. In fact, Watanabe showed up at the meeting after being officially admitted into the group yesterday. Takebe advised Watanabe not to leave the beloved LDP so easily.

Major LDP groups that have made eye-catching moves over the Aso administration

Name	Main members	Assertions/characteristics
Group to Powerfully Revitalize Japan	Hiroshi Imazu 4	
	Shunichi Yamaguchi 6	
Keiji Furuya 6	Established on Jan. 6	to support the Aso administration. Inaugural meeting was attended by 54 people.
Group of Lawmakers from Kyushu	Taku Yamasaki 12	
Seishiro Eto 8		
Seiichi Ota 8	Composed of members from Kyushu,	the prime minister's home turf
New Breeze	Tsutomu Takebe 7	Consists mostly of "Koizumi's children"
Group to Realize Policies from the People's Perspective	Ichita Yamamoto 8	
Masahiko Shibayama 2		
Koichi Yamauchi 1	Opposes specifying in the manifesto a plan to	raise the consumption tax starting in fiscal 2011
Group to Fundamentally Advance the Plan to Use Road-Related Tax Revenue for General Purposes	Yasufumi Tanahashi 4	
Kenichi Mizuno 4		
Keisuke Suzuki 1	Calls for thoroughly freeing up road-related	revenues for general spending
Group of Lawmakers Seeking the Swift Realization of Policies		
Yasuhisa Shiozaki 4		
Toshimitsu Motegi 5		
Masaaki Taira 1	Composed mostly of mid-level and junior members	critical of the policies of the Aso administration

Note: Circled figures denote the number of times elected to the Diet. Yamamoto is an Upper House member. Shiozaki served one term in the Upper House.

(3) Questionnaires to candidates for Lower House election: 80 PERCENT of LDP candidates call for review of postal privatization

MAINICHI (Page 5) (Full)
January 7, 2009

Diet debate began yesterday with an eye on a possible dissolution of the House of Representatives. What kind of views on policy issues do those who plan to run for the next general election for the House of Representative have? Based on the answers from surveys of political candidates conducted from October to December, the Mainichi Shimbun has analyzed their views by category such as political parties to which they belong, their age, electoral district in which they will run.

In the wake of the global financial crisis, Prime Minister Taro Aso has given top priority to pump-priming measures to bolster the economy, while pushing back Lower House dissolution. When Mainichi

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asked whether or not the candidates approved Aso's policy of bolstering the economy, relegating reforms in public finance to the

back-burner, 64 PERCENT of the respondents approved it, while 22 PERCENT disapproved. Seventy-nine percent of the candidates on the Liberal Democratic Party (LDP) ticket and 75 PERCENT of the candidates backed by the New Komeito approved Aso's policy. Around 70 PERCENT of the candidates of the Japanese Communist Party (JCP) and Social Democratic Party (SDP) supported it. However, 46 PERCENT of the Democratic Party of Japan's (DPJ) candidates disapproved, while 41 PERCENT approved.

More than one year has passed since the state-run postal services were privatized. Mainichi questioned about how postal services should be in the future. Of the candidates who will run in thinly-populated electoral districts, 77 PERCENT said that the harmful effects of postal privatization should be reviewed, exceeding by 11 percentage points the 66 PERCENT of all respondents who said the same thing. The figures mean that they are unhappy with service degradation in depopulated areas.

Of the LDP candidates, 83 PERCENT favored review of postal privatization, while only 14 PERCENT said that the privatization policy should be continued. These are ironic results in consideration of the fact that the LDP won a landslide in the 2005 Lower House election conducted under then Prime Minister Junichiro Koizumi who advocated postal privatization. More than 80 PERCENT of the candidates of the DPJ and People's New Party favored a review of the privatization policy. Many candidates of the JCP and SDP said that the postal services should be returned to the ones that they were run by the state.

The government shifted in effect the policy of restoring fiscal health, which was included in the 2006 "big-boned" reform policy guidelines when it compiled a state budget for fiscal 2009. The outlook is that tax revenues earmarked for road projects will be converted to general spending funds, but most of the road-related tax revenues will be used for road maintenances and public projects.

Regarding the construction of highways in the future, 60 PERCENT of the respondents said that construction should be drastically scaled down, while 24 PERCENT replied that roads should be improved as much as possible. However, 56 PERCENT of the LDP candidates answered that road should be constructed as much as possible, while 19 PERCENT preferred a drastic cut. In contrast, 77 PERCENT of the DPJ candidates favored a substantial decrease.

The replies to questions about the Koizumi reform policy line show that politicians' enthusiasm for reforms is gradually cooling down.

(4) Assistant Secretary Hill: Next U.S. administration also will recognize importance of abduction issue

SANKEI (Internet edition) (Full)
January 7, 2009

By Takashi Arimoto in Washington

Special Advisor to the Prime Minister on the Abduction Issue Kyoko Nakayama, who is visiting the United States, met on the afternoon of Jan. 6 (7:00 AM, Japan time) at the State Department with Assistant Secretary of State for East Asia Pacific Affairs Hill, who is the

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U.S. delegate to the Six-Party Talks on the North Korea nuclear issue. Hill said: "I have already briefed the next administration's transition team on the abduction issue. There is no doubt that the next administration will fully understand the importance of the abduction issue and work hard to bring about a resolution."

After the meeting, Nakayama told the press corps: "I confirmed that (even after the change in administration,) the U.S. will move together with us on the abduction issue." Nakayama said that her reason for visiting the U.S. immediately before the change in government was "in order to explain to knowledgeable people the abduction issue and deepen their understanding." She is scheduled next to meet with former ambassador to Japan Mondale and former Secretary of State Kissinger. Nakayama expressed her desire to

return to the U.S. after the inauguration and explain the abduction issue to senior officials in the Obama administration.

(5) Okinawa governor visits U.S., requests concessions on base problem

SANKEI (Internet edition) (Full)
January 7, 2009

By Takashi Arimoto in Washington

Hirokazu Nakaima, governor of Okinawa Prefecture, arriving in Washington on the morning of Jan. 6 (late at night on the 6th, Japan time), visited the State Department to explain the current state of base issues in Okinawa and make his appeal for a revision of the Status of Forces Agreement (SOFA) and other concessions.

There were strong doubts about the efficacy of his making a trip to the U.S. just prior to the change from the Bush administration to the Obama administration. The governor told the press corps at the airport in the Washington suburbs his reason for coming to the U.S. now: "It will take a half a year before the new administration settles in. In visiting now, I would like by explaining the Okinawa base problem have (my requests) carry over to the next administration."

On the relocation of Futenma Air Station (Ginowan City in Okinawa) to the coastline of Camp Schwab (Nago City in Okinawa), the biggest issue in the realignment of U.S. forces in Japan, Nakaima expressed his view that in this visit to the U.S. he did not intend to proactively raise the question since "views are split in the prefecture."

According to the prefecture, he reportedly will mainly make three requests: 1) urge resolution of the various base issues, such as incidents and accidents involving U.S. military personnel; 2) request revision of the SOFA; and 3) consolidation and reduction of U.S. bases.

(6) Former reporter calls for reciprocal visits to Hiroshima and Pearl Harbor by top leaders of Japan and the United States; True reconciliation nowhere in sight

MAINICHI (Page 3) (Excerpts)
January 3, 2009

Takahiro Takino

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Fumio Matsuo, 75, a former Washington bureau chief of Kyodo News Service, finally arrived at Dresden Central Station on the evening of November 15, 2008, after an eight-hour train ride. The boulevard stretching from the station is lined with buildings badly damaged by air strikes (during WWII). Dresden was a city Matsuo had been dying to visit for the last 13 years.

On February 13, 1995, Matsuo was staying at a Washington hotel on business as a member of the news agency's new department after ending his career as a reporter. His eyes were riveted on the hotel's television screen that was showing a program on the Dresden Reconciliation. In the closing days of WWII, U.S. and British forces bombed Dresden. The indiscriminate bombings destroyed 80 PERCENT of the beautiful buildings in Dresden, including churches, claiming over 35,000 lives. On the television was the 50th anniversary of the Dresden Bombings, attended by British royals and top British and American military officers.

This shocked Matsuo. Reconciliation had been reached between the United States and Germany. In the last stage of WWII, Japan, too, suffered indiscriminate bombings that were followed by the atomic bombs on Hiroshima and Nagasaki. Matsuo also learned that U.S. presidents had not visited Hiroshima or Nagasaki and Japanese prime ministers never laid flowers at the USS Arizona in Pearl Harbor. He keenly realized that Japan and the United States had not reached true reconciliation. "Words are unnecessary. It is sufficient for

the top leaders of the two countries to join their hands in prayer and lay wreaths." Resuming his work as a journalist, Matsuo began calling for reciprocal visits by the top leaders of Japan and the United States.

Matsuo himself endured one of U.S. raids on Japan as a 12-year-old child in the western city of Fukui, to which his family and him were evacuated from Tokyo. He took refuge by laying low in a sweet potato field when a bomb fell just 20 meters away from him. He narrowly escaped death because the bomb malfunctioned and splashed unopened into the paddy instead of dispersing above ground as intended.

Why did Japan go to war with the United States? That intense experience in Fukui was Matsuo's starting point of his insatiable interest in the United States as a journalist.

On August 16, 2005, Matsuo contributed an article to the opinion page of The Wall Street Journal in which he proposed that the U.S. President lay a wreath in Hiroshima and that Japan pursue reconciliation with its Asian neighbors. On the following day, Matsuo received a telephone call from former White House spokesman Speakes expressing his support. U.S. Ambassador to Japan J. Thomas Schieffer, too, said he would like to listen to his story. He felt that the United States took his proposal more seriously than Japan.

Shortly after returning from Germany, Matsuo listened to a lecture by former ASDF Chief of Staff Toshio Tamogami, held at the Foreign Correspondents' Club of Japan. It was painful to watch Tamogami repeat his stock argument that there had been no "aggression," while giving consideration to the United States. Matsuo felt sorry for him. Reconciliation begins with bring matters to closure. He thinks putting a closure to matters is his mission as a survivor.

Late last year, Matsuo was invited to a civic lecture event in Kofu City titled "Paying Tribute to the War Dead and Reconciliation."

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Students and elderly people were all ears when he spoke. One said, "I cannot understand the meaning of reconciliation," and another noted, "In the end, the wishes of the country with strong military might and the dollar will take precedence over other things." The session continued until beyond 9 o'clock. Matsuo said to the student: "Please study the United States well; reconciliation will follow."

(7) TOP HEADLINES

Asahi:
Israel attacks 3 UN schools in Gaza

Mainichi:
Government to inject public funds into more than 40 regional banks

Yomiuri:
New law eyed to dispatch MSDF to clamp down on pirates off Somalia

Nikkei:
Government to scrap capital-gains tax for foreigners holding stakes in Japan firms via investment funds

Sankei:
Prime Minister Aso orders Japanese version of Green New Deal:
Investment into environment to create 800,000 jobs

Tokyo Shimbun:
Cash payouts to high income earners as well

Akahata:
JCP's Sasaki urges Aso to come up with emergency measures to protect livelihoods

(8) EDITORIALS

Asahi:
(1) Cash-benefit plan: Prime Minister Aso, don't hesitate to change

your mind

(2) Housing support for elderly living along

Mainichi:

(1) 20th anniversary for Emperor's reign: Emperor for the people

(2) United States must stop Israel from attacking Gaza

Yomiuri:

(1) Ruling, opposition camps need cooperation, not just confrontation

(2) How to prevent decline of college students' academic performances

Nikkei:

(1) Auto manufacturers urged to take preparatory steps for the future

(2) Japan, China should calmly realize agreement on gas fields

Sankei:

(1) 20th anniversary of Emperor's reign: The Emperor hopes for unity of people

(2) Diet interpellations: Early enactment of budgets indispensable

Tokyo Shimbun:

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(1) Time to ban worker dispatch to manufacturers

(2) Hast to rebuild relationship of trust with China

Akahata:

(1) Second extra budget has no prospect and warmth

(9) Prime Minister's schedule, January 6

NIKKEI (Page 2) (Full)

January 7, 2009

07:34

Took a walk around the private residence in Kamiyama-cho

10:10

Met with Deputy Chief Cabinet Secretary Matsumoto at the Kantei.

Then met with outgoing and incoming Deputy Foreign Ministers Otabe and Kono.

11:47

Government-Ruling Parties Liaison Council

12:46

Met with Secretary General Hosoda and Diet Policy Committee Chairman Oshima. Attended a lawmakers meeting.

13:02

Lower House Plenary session.

16:26

Met with Chairman Endo of the Special Committee on Water Safety and New Komeito Foreign Affairs Division chief Hamada. Finance Minister Nakagawa was present.

17:05

Met with Environment Minister Saito and Vice Minister Nishio.

17:34

Council on Economic and Fiscal Policy. METI minister Nikai remained.

18:00

Delivered to former Tokyo Institute of Technology President Masuo Aizawa and others letters of appointment as members of the Council for Science and Technology Policy. State Minister for Science and Technology Policy Noda was present.

19:18

Met with LDP lawmakers elected in Kyushu constituencies, including Foreign Affairs Research Commission Chairman Yamazaki at Toranomon

Pastoral Hotel.

20:06

Met with LDP Tax System Research Commission Chairman Tsushima and Deputy Chairman Yanagisawa. Chief Cabinet Secretary Kawamura was present.

22:15

rrived at the private residence.

SCHIEFFER